



**Michigan Manufacturers Association
Presentation to the House Tax Policy
Committee**

6/10/09

What is Manufacturing?

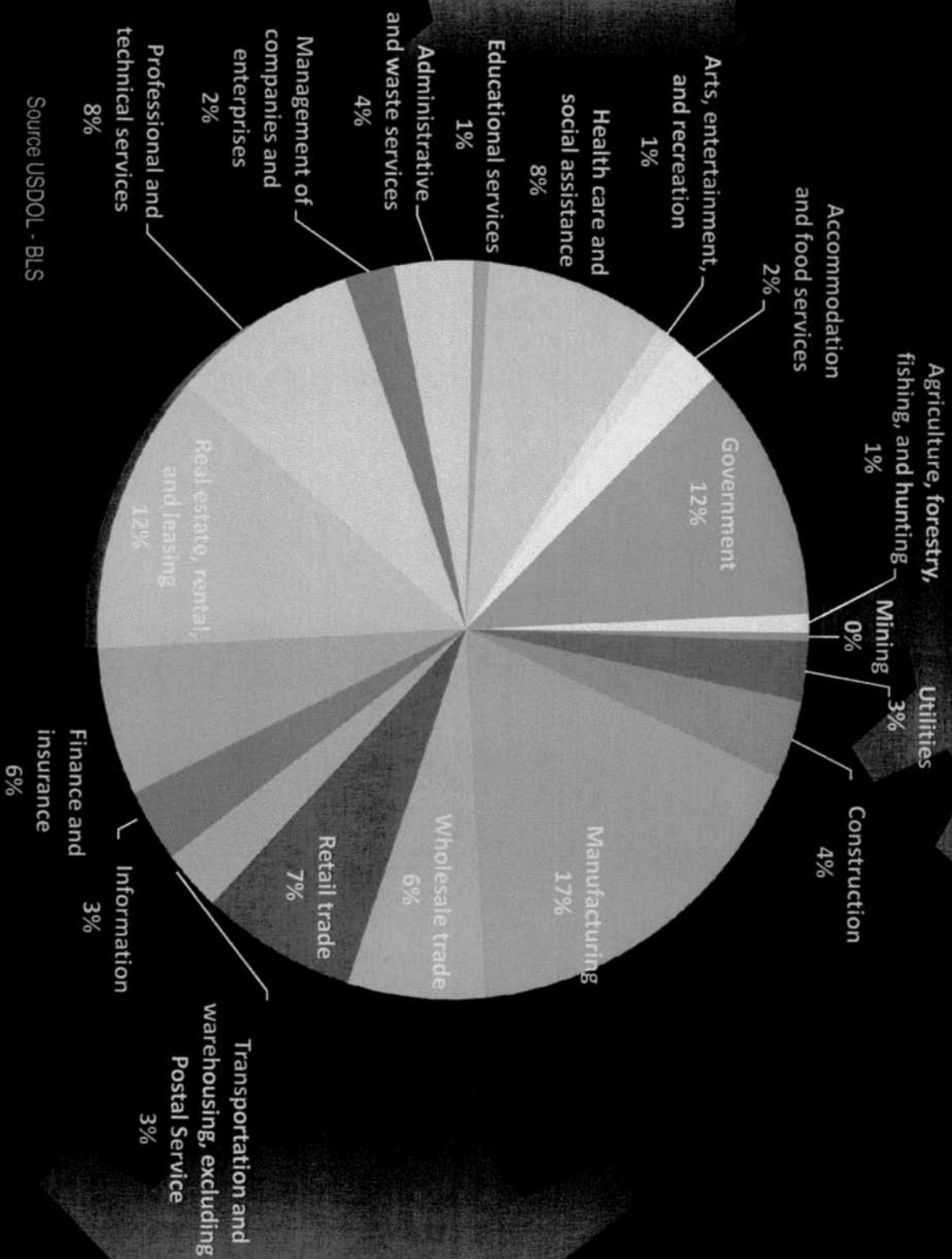
- High Capital Investment (Real & Personal Property)
- High Wage & Good Benefits
- High Economic Multiplier Effect
- Competes on the Basis of Cost in Global Economy



Michigan is a Manufacturing State

- Largest sector the Michigan economy
- Seventh Largest Manufacturing GSP in the Nation (2008)
- Manufacturing Employs 492,100 (March 2009)
- More T&D shops than any other state (1,099)
- 50% of the Nation's Auto Supplier Base 145,818 Employees (2004)
- Half of Nation's \$8.9 billion Office Furniture Production
- 6th Largest Manufacturing Export in the Nation (2009)

GSP by Sector 2007



Average Weekly Wage by Sector March 2009



Employment Multiplier Effect

Automotive Value Chain

OEM to Suppliers 3.9 Multiplier

Suppliers to Spin-off 3.7 Multiplier

Total Automotive = 7.6 Multiplier



Manufacturing Investment in Michigan in Billions of Dollars

- Ford has invested more than **\$12 billion** in capital investments in Michigan since 2000 and employs 36,000 people in Michigan.
- General Motors has invested about **\$9 billion** in Michigan since 1998.
- Chrysler LLC has invested over **\$6 billion** in Michigan since 2002.
- MEDC estimates manufacturers have invested **\$11 billion** through MEGA since 2005 .
- Hemlock Semiconductor Corporation to invest up to **\$1 billion** in Michigan.
- A123Systems, Inc. will invest over **\$600 million** in initial coating, cell manufacturing, and pack assembly.
- Johnson Controls-Saft Advanced Power Solutions LLC will invest **\$220 million** in a new advanced-battery manufacturing facility.
- Lenawee Stamping Corporation will invest **\$6.6 million** to expand its operations in Tecumseh.
- Magna Electronics to invest **\$20 million** for electric and hybrid vehicles.

Effectiveness of Tax Incentives

Incentive	Relative Effectiveness Encouraging Jobs
PA 198 – Industrial Property Abatement	High
PA 328 – New Personal Property	High
PA 376 – Renaissance Zone Act	Medium
PA 376 – MEGA	Medium
PA 381 – Brownfield Redevelopment	Medium
PA 79 and Sec. 455 MBT Act – Film Incentive	Low
PA 210 – Commercial Rehabilitation Abatement	Low
PA 146 – Obsolete Property Rehabilitation	Low



Business Tax Ranking

[as share of profits]

- Michigan Ranks # 22
- Mid-pack Has Not Been Successful
- Michigan's Unemployment Rate is the Highest in the Nation 12.9%

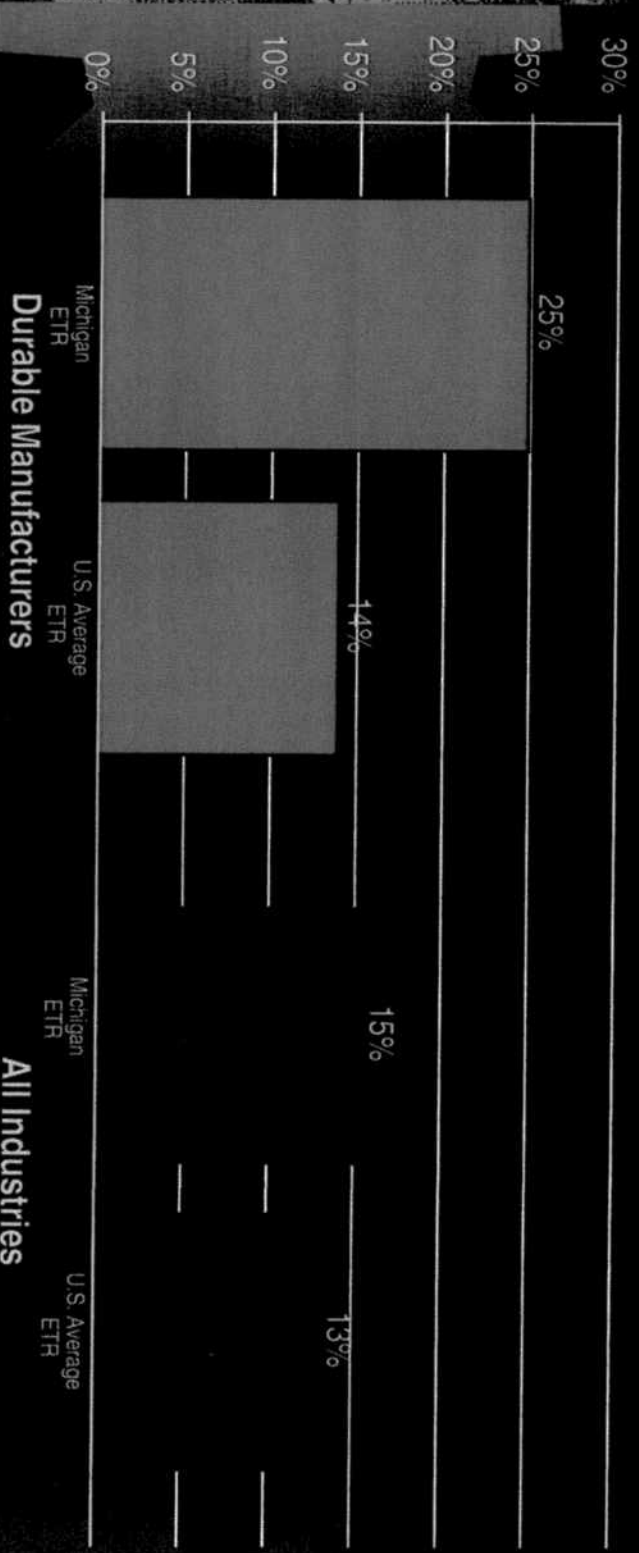
"2008 State Business Tax Burdens Rankings" Anderson Economic Group



Michigan Business Tax Burden on Manufacturing

- Even after 2007 reforms, manufacturing sector has disproportionate burden of business taxes
- Property taxes on capital intensive industries
- MBT gross receipts tax allows no deduction for labor, financing and depreciation on existing investments

Effective Tax Rates on Manufacturers Higher in Michigan Relative to Other States



- Durable goods manufacturers have the highest effective tax rate in Michigan of any industry (25%) and a rate that is two thirds higher than the industry average (15%).
- This disparity is caused by a combination of high personal property taxes (which many industries don't pay) and a high SBT burden (resulting from the fact that the SBT is largely a tax on capital and labor).
- On average, other states tax manufacturers at a rate that is similar to the taxes paid by other industries. The U.S. average effective tax rate for durable goods manufacturers is 14%, which is close to the U.S. average rate of 13% for all industries.
- Many people have said that Michigan is a high tax state. *The truth is that Michigan is a high tax state for manufacturers.*

Source: Effective tax rates for 2004 calculated by Ernst & Young. Quantitative Economics and Statistics Practice.

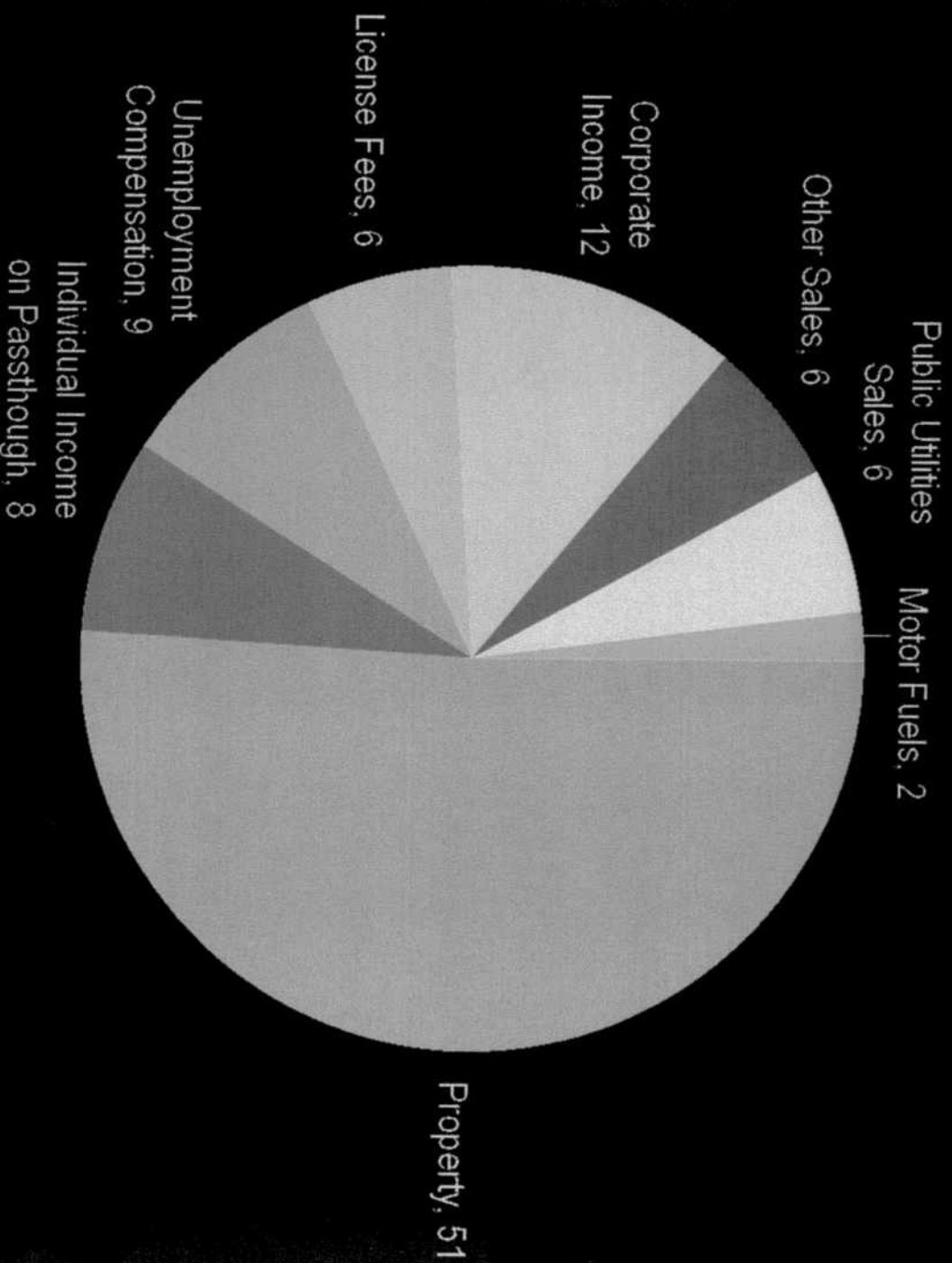
MMA Tax Policy Agenda

- Eliminate the Personal Property Tax
- Eliminate the MBT Surcharge
- Simplify “Modified Gross Receipts” tax base of MBT

Eliminate Personal Property Tax

- This tax is a competitive disadvantage for investments in Michigan manufacturing property.
 - Most States Have Eliminated Personal Property Taxes on Manufacturing Equipment
- Barrier to Investment – Taxes the thing you want the most – capital investment.
 - Investor uncertainty
 - Sometimes allowed, sometimes not – classification and other legal challenges could deny benefit
 - Credits are a delayed benefit
- Reform Challenges Include Addressing Local Government Funding

Business Tax Revenue by Type





Eliminate MBT Surcharge

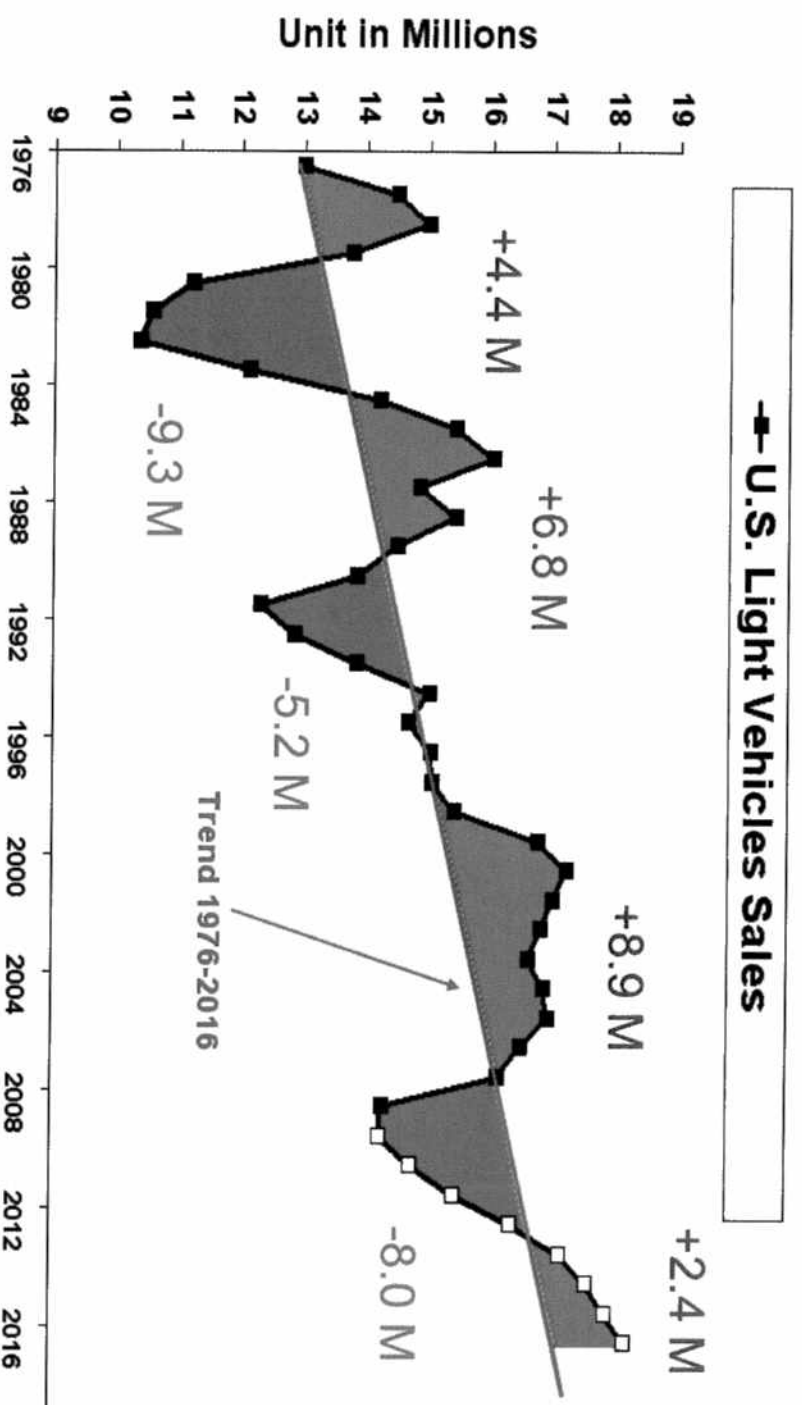
- \$700 Million Barrier to Competitiveness
- Investment and R&D Incentives Do Not Apply to Reduce Surcharge
- History –
 - Personal Income Tax – Return to 4.6% stopped at 4.35%
 - Ill-conceived Service Tax – Cost Approx. \$2 Billion
 - MMA supported immediate elimination with Temporary Surcharge of \$700 million – all borne by business despite service tax consumer component



Simplify Modified Gross Receipts

- One-of-Its-Kind Tax Base
- Uncertainties of interpretation = Barrier to Investment
- Willing to Discuss Revenue Neutral Solutions
- We Are Currently Talking With Treasury

Reason for Optimism



Source: CSM Worldwide, J.D. Power and Center for Automotive Research